

# Annual Financial Statements

for

## **MUTALE LOCAL MUNICIPALITY**

for the year ended 30 June: **2011**

Province:

LIMPOPO

AFS rounding:

**R (i.e. only cents)**

### **Contact Information:**

<b>Name of Municipal Manager:</b>	NETSHANZHE TG
<b>Name of Chief Financial Officer:</b>	TSHIKUNDAMALEMA VJ
Contact telephone number:	015 967 9600
Contact e-mail address:	<a href="mailto:Tshikundamalemav@mutale.gov.za">Tshikundamalemav@mutale.gov.za</a>
<b>Name of contact at provincial treasury:</b>	Tshivule MM
Contact telephone number:	083 445 2089
Contact e-mail address:	<a href="mailto:Tshivulemm@treasury.limpopo.gov.za">Tshivulemm@treasury.limpopo.gov.za</a>
<b>Name of relevant Auditor:</b>	Auditor General South Africa
Contact telephone number:	015 283 9341
Contact e-mail address:	<a href="mailto:eabotsi@agsa.co.za">eabotsi@agsa.co.za</a>
<b>Name of contact at National Treasury:</b>	
Contact telephone number:	<a href="mailto:Nekhavhambe Obrey">Nekhavhambe Obrey</a>
Contact e-mail address:	<a href="mailto:Obrey.nekhavhambe@treasury.gov.za">Obrey.nekhavhambe@treasury.gov.za</a>

**MUTALE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**General information**

**Members of the Council**

Matibe TB  
Netshipise LM  
Nekhunguni AE

**Mayor**  
**Speaker**  
Chief Whip

Lieba NA  
Mukwevho NJ  
Madume TS

Member of the Executive Committee  
Member of the Executive Committee  
Member of the Executive Committee

Nekhungubi PD  
khunwana KJ  
Maisha RV  
Nephali NH  
Rambuda AS  
Gadabeni RL  
Lukhaimana KA  
Mariba MJ  
Matshusa AB  
Mavhungu AR  
Mbedzi MP  
Mpondo LD  
Mudzielwana NE  
Munzhelele NP  
Nekhubvi GG  
Netshisaulu AG  
Netshisaulu AG  
Raluswinga TJ  
Thambatshira AS  
Tshivhenga KP

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**Municipal Manager**

Netshanzhe TG

**Chief Financial Officer**

Thsikundamalema VJ

**Grading of Local Authority**

Grade 2

**Auditors**

Auditor-General

**Bankers**

First National Bank

**MUTALE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**General information (continued)**

**Registered Office:**

**Physical address:**

New Municipal Buildings  
Next Old Manenu Battalion  
Tshilamba  
Mutale  
0956

**Postal address:**

Private bag 1254  
Mutale  
0956

**Telephone number:**

015 967 9608

**Fax number:**

015 967 9654

**E-mail address:**

[Tshikundamalemav@mutale.gov.za](mailto:Tshikundamalemav@mutale.gov.za)

**MUTALE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages x to x, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Municipal Manager:

*DATE : 31 August 2011*

**MUTALE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

<b>Index</b>	<b>Page</b>
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Accounting Policies	9-14
Notes to the Annual Financial Statements	15-30
Appendix A: Schedule of External Loans	31
Appendix B: Analysis of Property, Plant and Equipment	32-33
Appendix C: Segmental Analysis of Property, Plant and Equipment	34
Appendix D: Segmental Statement of Financial Performance	35
Appendix E: Statement of comparative and actual information	36

**MUTALE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION**  
as at 30 June 2011

	Note	2011 R	2010 R
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	440 688	118 246
Trade and other receivables from exchange transactions	2	559 030	513 024
Other receivables from non-exchange transactions	3	695 923	695 990
Inventories	4	346 085	777 817
VAT receivable	8	6 237 312	4 400 085
		8 279 038	6 505 163
<b>Non-current assets</b>			
Property, plant and equipment	5	47 704 431	47 205 671
<b>Total assets</b>		<b>55 983 469</b>	<b>53 710 834</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	6	15 922 741	23 859 278
Consumer deposits	7	211 783	211 783
Current portion of unspent conditional grants and receipts	9	22 201 443	13 112 864
Current portion of borrowings	10	243 030	254 701
Current portion of finance lease liability	11	253 335	191 842
<b>Non-current liabilities</b>			
Non-current borrowings	10	1 431 727	1 674 646
Non-current finance lease liability	11	177 455	430 790
<b>Total liabilities</b>		<b>40 441 514</b>	<b>39 735 905</b>
<b>Net assets</b>		<b>15 541 954</b>	<b>13 974 929</b>
<b>NET ASSETS</b>			
Accumulated surplus / (deficit)		15 541 954	13 974 929
<b>Total net assets</b>		<b>15 541 954</b>	<b>13 974 929</b>

<b>MUTALE LOCAL MUNICIPALITY</b> <b>STATEMENT OF FINANCIAL PERFORMANCE</b> for the year ending 30 June 2011			
	<b>Note</b>	<b>2011 R</b>	<b>2010 R</b>
<b>Revenue</b>			
Property rates	12	3 110 860	763 922
Service charges	13	193 131	196 354
Rental of facilities and equipment	14	71 267	70 323
Interest earned - external investments	15	350 277	94 041
Interest earned - outstanding receivables	16	223 473	87 489
Fines		194 355	262 170
Licences and permits		2 225 830	2 558 289
Government grants and subsidies	17	41 125 734	38 603 281
Other income	18	646 893	2 046 239
<b>Total revenue</b>		<b>48 141 820</b>	<b>44 682 109</b>
<b>Expenses</b>			
Employee related costs	19	22 247 881	22 168 103
Remuneration of councillors	20	5 231 388	4 733 128
Bad debts		2 238 934	-
Collection costs		-	-
Depreciation and amortisation expense	21	1 811 825	1 727 943
Repairs and maintenance		1 586 897	500 725
Finance costs	22	488 249	505 076
General expenses	23	13 022 760	13 923 471
<b>Total expenses</b>		<b>46 627 935</b>	<b>43 558 446</b>
Gain / (loss) on sale of assets	24	-	(545 424)
(Impairment loss) / Reversal of impairment loss	25	-	(561 598)
Inventories: (Write-down) / reversal of write-down to net realisable value	4	-	-
<b>Surplus / (deficit) for the period</b>		<b>1 513 885</b>	<b>16 641</b>

**MUTALE LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
as at 30 June 2011

		Accumulated Surplus/(Deficit)	Total: Net Assets
	Note	R	R
<b>Balance at 30 June 2009</b>		<b>22 529 452</b>	22 529 452
Correction of prior period error	28	(8 571 164)	(8 571 164)
<b>Restated balance</b>		<b>13 958 288</b>	13 958 288
Surplus / (deficit) for the period		16 641	16 641
<b>Balance at 30 June 2010</b>		<b>13 974 929</b>	<b>13 974 929</b>
Correction of prior period error		-	-
<b>Restated balance</b>		<b>13 974 929</b>	-
Fair value adjustment		53 140	53 140
			-
			-
Surplus / (deficit) for the period		1 513 885	1 513 885
<b>Balance at 30 June 2011</b>		<b>15 541 954</b>	<b>1 567 025</b>
		(0)	



<b>MUTALE LOCAL MUNICIPALITY</b> <b>CASH FLOW STATEMENT</b> as at 30 June 2011			
	<b>Note</b>	<b>2011 R</b>	<b>2010 R</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		57 184 460	43 013 710
Taxation			
Sales of goods and services		3 303 991	960 276
Grants		41 125 734	38 603 281
Interest received		573 749	181 530
Other receipts		3 138 345	3 268 623
Working capital changes		9 042 640	
Payments		51 919 206	41 830 503
Employee costs		27 479 269	26 901 231
Suppliers		14 609 657	14 424 196
Interest paid		488 249	505 076
Other payments			
Working capital changes		9 342 031	
<b>Net cash flows from operating activities</b>	26	<b>5 265 254</b>	<b>1 183 206</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets (PPE)		(4 496 380)	(451 629)
Proceeds from sale of fixed assets			
Proceeds from sale of investments			
Purchase of intangibles			
Decrease/(Increase) in Loans and receivables			
<b>Net cash flows from investing activities</b>		<b>(4 496 380)</b>	<b>(451 629)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings			
Repayment of borrowings		(254 590)	(404 665)
Proceeds from finance lease liability			
Repayment of finance lease liability		(191 842)	(141 429)
<b>Net cash flows from financing activities</b>		<b>(446 432)</b>	<b>(546 094)</b>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		322 442	185 483
<b>Net cash and cash equivalents at beginning of period</b>		118 246	(67 237)
<b>Net cash and cash equivalents at end of period</b>	27	<b>440 688</b>	<b>118 246</b>

**MUTALE LOCAL MUNICIPALITY**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2011

**1 BASIS OF ACCOUNTING**

**1.1 BASIS OF PRESENTATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

**1.2 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

**1.3 GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

**1.4 COMPARATIVE INFORMATION**

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

**STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET**

**1.5 EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 8 Interest in Joint Ventures - issued August 2006  
GRAP 18 Segment Reporting - issued March 2005  
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008  
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007  
GRAP 103 Heritage Assets - issued July 2008

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits - effective 1 January 2009

IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

Other

Other

Impact on the municipality's financial statements once implemented:

It is unlikely that the standards will have a material impact on the municipality's annual financial statements.

## **2 PROPERTY, PLANT AND EQUIPMENT**

### **2.1 INITIAL RECOGNITION**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

### 2.3 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

### 2.4 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure		Other	
Roads and Paving	20	Other vehicles	17
Electricity	20	Office equipment	17
		Furniture and fittings	17
<b>Community</b>		Bins and containers	8
Buildings	30	Emergency equipment	5
Recreational Facilities	30	Computer equipment	5
Security		plant and equipment	20
<b>Finance lease assets</b>			
Office equipment	5		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

### 2.5 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## 3 INVENTORIES

### 3.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

### 3.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method.

#### **4 FINANCIAL INSTRUMENTS**

##### **4.1 INITIAL RECOGNITION**

Financial instruments are initially recognised at fair value.

##### **4.2 SUBSEQUENT MEASUREMENT**

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

#### **4.3 TRADE AND OTHER RECEIVABLES**

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

#### **4.4 TRADE PAYABLES AND BORROWINGS**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### **4.5 CASH AND CASH EQUIVALENTS**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### **5 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **6 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **7 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **8 LEASES**

### **8.1 MUNICIPALITY AS LESSEE**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

## **8.2 MUNICIPALITY AS LESSOR**

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## **9 REVENUE**

### **9.1 REVENUE FROM EXCHANGE TRANSACTIONS**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.



## **9.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

## **9.3 GRANTS, TRANSFERS AND DONATIONS**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

## **10 BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

## **11 RETIREMENT BENEFITS**

The municipality provides retirement benefits (pension) for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable.

## **12 IMPAIRMENT OF ASSETS**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	2011 R	2010 R
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**1 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Cash on hand	7 943	8 431
Cash at bank	432 745	109 815
	440 688	118 246

The Municipality has the following bank accounts: -

**Current Account (Primary Bank Account)**

FNB Bank Limited - Thohoyandou Branch: Account Number 5466008 3097

Cash book balance at beginning of year	108 772	(86 181)
Cash book balance at end of year	431 691	109 815
Bank statement balance at beginning of year	86 753	301 740
Bank statement balance at end of year	607 476	86 753

**Current Account (Other Account)**

FNB Bank Limited - Thohoyandou Branch: Account Number 6204718255

Cash book balance at beginning of year	1 043	17 057
Cash book balance at end of year	1 054	1 043
Bank statement balance at beginning of year	1 043	17 057
Bank statement balance at end of year	1 054	1 043

<b><u>Cash on hand</u></b>	7 943	8 431
Total cash and cash equivalents	440 688	118 246

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>			
<b><u>Trade receivables</u></b>			
<b>as at 30 June 2011</b>			
Service debtors			
Consumer debtors		3 470 751	559 030
<b>Total</b>		<b>3 470 751</b>	<b>559 030</b>

<b>as at 30 June 2010</b>			
Service debtors			
Consumer debtors		1 201 873	513 024
<b>Total</b>		<b>1 201 873</b>	<b>513 024</b>

**2 Reconciliation of the doubtful debt provision**

Balance at beginning of the year	688 848	3 236 747
Contributions to provision	2 238 934	
Doubtful debts written off against provision	(16 061)	(879 500)
Reversal of provision	-	(1 668 399)
<b>Balance at end of year</b>	<b>2 911 722</b>	<b>688 848</b>

**3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

Other debtors	695 923	695 990
<b>Total Other Debtors</b>	<b>695 923</b>	<b>695 990</b>

**4 INVENTORIES**

<b>Closing balance of inventories:</b>	<b>346 085</b>	<b>777 817</b>
Consumable stores	346 085	51 655
Maintenance materials	-	726 163

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**5 PROPERTY, PLANT AND EQUIPMENT**

**5.1 Reconciliation of Carrying Value**

	<b>Buildings</b>	<b>Infrastructure</b>	<b>Community</b>	<b>Other Assets</b>	<b>Finance lease assets</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>as at 1 July 2010</b>	<b>9 304 379</b>	<b>29 454 865</b>	<b>2 718 631</b>	<b>5 263 663</b>	<b>464 133</b>	<b>47 205 671</b>
Cost/Revaluation	10 776 236	29 558 346	3 160 529	9 187 608	898 321	53 581 040
Accumulated depreciation and impairment losses	(1 471 857)	(103 481)	(441 898)	(3 923 945)	(434 188)	(6 375 369)
Acquisitions	429 398	149 174	-	552 708	-	1 131 279
Capital under Construction	-	1 178 852	-	-	-	1 178 852
Depreciation	(345 842)	(435 274)	(121 341)	(729 250)	(179 664)	(1 811 371)
Carrying value of disposals	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Other movements*	-	-	-	-	-	-
<b>as at 30 June 2011</b>	<b>9 387 934</b>	<b>30 347 617</b>	<b>2 597 290</b>	<b>5 087 120</b>	<b>284 469</b>	<b>47 704 431</b>
Cost/Revaluation	11 205 633	30 886 372	3 160 529	9 740 316	898 321	55 891 171
Accumulated depreciation and impairment losses	(1 817 699)	(538 755)	(563 239)	(4 653 195)	(613 852)	(8 186 741)

Refer to Appendix B for more detail on property, plant and equipment

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

5.1 Reconciliation of Carrying Value	Buildings	Infrastructure	Community	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R
<b>as at 1 July 2009</b>	<b>8 544 204</b>	<b>37 810 393</b>	<b>1 718 864</b>	<b>6 723 320</b>	<b>643 797</b>	<b>55 440 577</b>
Cost/Revaluation	9 754 382	45 692 317	2 059 089	11 890 844	898 321	70 294 953
Accumulated depreciation and impairment losses	(1 210 178)	(7 881 924)	(340 225)	(5 167 525)	(254 524)	(14 854 376)
Acquisitions	1 021 854	1 993 795	1 101 440	88 894	-	4 205 983
Capital under Construction	-	11 034 680	-	-	-	11 034 680
Depreciation	(261 679)	(103 480)	(101 672)	(650 558)	(179 664)	(1 297 054)
Carrying value of disposals	-	<b>(2 424 769)</b>	-	<b>(897 391)</b>	-	<b>(3 322 160)</b>
Cost/Revaluation	-	(4 384 864)	-	(2 790 079)	-	(7 174 943)
Accumulated depreciation and impairment losses	-	1 960 095	-	1 892 688	-	3 852 783
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-
Transfers	-	(18 855 754)	-	(5)	-	(18 855 759)
*Other movements	-	-	-	-	-	-
<b>as at 30 June 2010</b>	<b>9 304 379</b>	<b>29 454 865</b>	<b>2 718 631</b>	<b>5 263 663</b>	<b>464 133</b>	<b>47 205 671</b>
Cost/Revaluation	10 776 236	29 558 346	3 160 529	9 187 608	898 321	53 581 040
Accumulated depreciation and impairment losses	(1 471 857)	(103 481)	(441 898)	(3 923 945)	(434 188)	(6 375 369)

Refer to Appendix B for more detail on property, plant and equipment

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Note	2011 R	2010 R
<b>6 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade creditors	4 592 859	9 142 495
Payments received in advance	57 815	57 196
Retentions	2 916 610	2 827 224
Staff leave accrual	1 926 414	2 373 062
Staff bonus accrual	412 960	414 651
Other creditors	6 016 083	9 044 651
<b>Total creditors</b>	<b>15 922 741</b>	<b>23 859 278</b>

The fair value of trade and other payables approximates their carrying amounts.

**7 CONSUMER DEPOSITS**

Consumer deposits	211 783	211 783
<b>Total consumer deposits</b>	<b>211 783</b>	<b>211 783</b>

**8 VAT RECEIVABLE**

VAT receivable	6 237 312	4 400 085
	<b>6 237 312</b>	<b>4 400 085</b>

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

**9 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**9.1 Unspent Conditional Grants from other spheres of Government**

MIG Grants	9 403 579	6 087 179
MSIG	-	330 000
FMG	-	317
Vhembe District Municipality	11 570 142	5 467 647

**9.2 Other Unspent Conditional Grants and Receipts**

National Lottery	1 227 722	1 227 722
<b>Total Unspent Conditional Grants and Receipts</b>	<b>22 201 443</b>	<b>13 112 864</b>
<b>Current portion of unspent conditional grants and receipts</b>	<b>22 201 443</b>	<b>13 112 864</b>

See Note 17 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>10 BORROWINGS</b>			
Other borrowings		1 674 757	1 929 347
		<b>1 674 757</b>	<b>1 929 347</b>
Less : Current portion transferred to current liabilities		(243 030)	(254 701)
Other borrowings		(243 030)	(254 701)
<b>Total borrowings</b>		<b>1 431 727</b>	<b>1 674 646</b>

Refer to Appendix A for more detail on borrowings.

**11 FINANCE LEASE LIABILITY**

**2011**

**Amounts payable under finance leases**

	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Within one year	303 152	49 817	253 335
Within two to five years	186 741	9 286	177 455
	<b>489 893</b>	<b>59 103</b>	<b>430 790</b>
Less: Amount due for settlement within 12 months (current portion)			253 335
			<b>177 455</b>

The average lease term is 60 months. Repayment terms escalate at 10% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset. Liability will be fully paid by 2014.

**2010**

**Amounts payable under finance leases**

	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Within one year	263 336	71 494	191 842
Within two to five years	489 894	59 104	430 790
	<b>753 230</b>	<b>130 598</b>	<b>622 632</b>
Less: Amount due for settlement within 12 months (current portion)			191 842
			<b>430 790</b>

The average lease term is 60 months. Repayment terms escalate at 10% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset. Liability will be fully paid by 2014.



**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>12 PROPERTY RATES</b>			
<u>Actual</u>			
Property rates		3 110 860	763 922
<b>Total property rates</b>		<b>3 110 860</b>	<b>763 922</b>
Property rates - No penalties imposed and collection charges		-	-
<b>Total</b>		<b>3 110 860</b>	<b>763 922</b>
<u>Valuations</u>			
Residential		4 893 835	4 893 835
Commercial		146 800 090	146 800 090
State		52 719 120	52 719 120
Church		11 278 000	11 278 000
<b>Total Property Valuations</b>		<b>215 691 045</b>	<b>215 691 045</b>
Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2008.			
A general rate of R0,004 is applied to business and R0,002 is charged to household. Rebates of 50% is granted to residential owners. Rates are levied on an monthly basis on property owners.			
<b>13 SERVICE CHARGES</b>			
Refuse removal		193 131	196 354
<b>Total Service Charges</b>		<b>193 131</b>	<b>196 354</b>
<b>14 RENTAL OF FACILITIES AND EQUIPMENT</b>			
Rental of facilities		71 267	70 323
<b>Total rentals</b>		<b>71 267</b>	<b>70 323</b>
<b>15 INTEREST EARNED - EXTERNAL INVESTMENTS</b>			
Bank		36 098	60 369
Investment		314 178	33 672
<b>Total interest</b>		<b>350 277</b>	<b>94 041</b>
<b>16 INTEREST EARNED - OUTSTANDING RECEIVABLES</b>			
Consumer debtors / Other debtors		223 473	87 489
<b>Total interest</b>		<b>223 473</b>	<b>87 489</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>17 GOVERNMENT GRANTS AND SUBSIDIES</b>			
Equitable share		29 975 380	24 576 780
MIG Grant		2 218 600	5 147 625
FMG		1 000 343	999 683
MSIG Grants		1 080 000	405 000
LED		436 537	147 007
VDM		6 414 875	7 327 186
<b>Total Government Grant and Subsidies</b>		<b>41 125 734</b>	<b>38 603 281</b>
<b>17.1 Equitable Share</b>			
		29 975 380	24 576 780
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.			
<b>17.2 MIG Grant</b>			
<b>Balance unspent at beginning of year</b>		6 087 178	1 188 803
Current year receipts		5 535 000	10 046 000
Conditions met - transferred to revenue		(2 218 600)	(5 147 625)
<b>Conditions still to be met - remain liabilities (see note 9.1)</b>		<b>9 403 579</b>	<b>6 087 178</b>
<b>17.3 FMG</b>			
<b>Balance unspent at beginning of year</b>		317	0
Current year receipts		1 000 000	1 000 000
Conditions met - transferred to revenue		(1 000 343)	(999 683)
<b>Conditions still to be met - remain liabilities (see note 9.1)</b>		<b>(26)</b>	<b>317</b>
<b>17.4 MSIG Grants</b>			
<b>Balance unspent at beginning of year</b>		330 000	(0)
Current year receipts		750 000	735 000
Conditions met - transferred to revenue		(1 080 000)	(405 000)
<b>Conditions still to be met - remain liabilities (see note 9.1)</b>		<b>(0)</b>	<b>330 000</b>
<b>17.5 LED</b>			
<b>Balance unspent at beginning of year</b>		(328 367)	(491 759)
Current year receipts		402 667	310 399
Conditions met - transferred to revenue		(436 537)	(147 007)
<b>Conditions still to be met - remain liabilities (see note 9.1)</b>		<b>(362 237)</b>	<b>(328 367)</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>17.6 VDM</b>			
Balance unspent at beginning of year		5 495 983	-
Current year receipts		12 518 432	12 823 169
Conditions met - transferred to revenue		(6 414 875)	(7 327 186)
<b>Conditions still to be met - remain liabilities (see note 9.1)</b>		<b>11 599 540</b>	<b>5 495 983</b>
<b>18 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS</b>			
<b>18.1 Other income</b>			
Other income		646 893	2 046 239
<b>Total Other Income</b>		<b>646 893</b>	<b>2 046 239</b>
<b>19 EMPLOYEE RELATED COSTS</b>			
Employee related costs - Salaries and Wages		15 174 243	14 161 866
Employee related costs - Contributions for UIF, pensions and medical aids		3 508 250	3 862 030
Travel, motor car, accommodation, subsistence and other allowances		1 698 618	1 712 668
Housing benefits and allowances		44 680	66 640
Overtime payments		333 262	346 851
Performance and other bonuses		1 045 971	1 427 942
Long-service awards		-	-
Other employee related costs		442 857	590 107
<b>Employee Related Costs</b>		<b>22 247 881</b>	<b>22 168 103</b>
There were no advances to employees			
<b>Remuneration of the Municipal Manager</b>			
Annual Remuneration		372 195	363 736
Performance- and other bonuses		-	-
Travel, motor car, accommodation, subsistence and other allowances		170 150	186 023
Contributions to UIF, Medical and Pension Funds		111 295	81 519
<b>Total</b>		<b>653 641</b>	<b>631 279</b>
<b>Remuneration of the Chief Finance Officer</b>			
Annual Remuneration		328 688	321 218
Performance- and other bonuses		-	-
Travel, motor car, accommodation, subsistence and other allowances		159 260	171 299
Contributions to UIF, Medical and Pension Funds		98 460	72 165
<b>Total</b>		<b>586 408</b>	<b>564 682</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Note	2011 R	2010 R
<b>Remuneration of Individual Executive Directors</b>	<b>Corporate Services R</b>	<b>Technical Services R</b>
<b>2011</b>		
Annual Remuneration	328 688	328 688
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	157 246	157 246
Contributions to UIF, Medical and Pension Funds	98 460	98 460
<b>Total</b>	<b>584 394</b>	<b>584 394</b>
	<b>Corporate Services R</b>	<b>Technical Services R</b>
<b>2010</b>		
Annual Remuneration	321 218	321 218
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	155 046	155 046
Contributions to UIF, Medical and Pension Funds	72 165	72 165
<b>Total</b>	<b>548 428</b>	<b>548 428</b>
<b>20 REMUNERATION OF COUNCILLORS</b>		
Executive Mayor	371 508	331 297
Speaker	297 206	265 037
Executive Committee Members	608 343	521 790
Councillors	1 928 824	1 689 995
Councillors' pension and medical aid contributions	531 926	479 105.85
Councillors' allowances	1 493 581	1 445 904
<b>Total Councillors' Remuneration</b>	<b>5 231 388</b>	<b>4 733 128</b>
<b>In-kind Benefits</b>		
The Executive Mayor, Deputy Executive Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
<b>21 DEPRECIATION AND AMORTISATION EXPENSE</b>		
Property, plant and equipment	1 811 825	1 727 943
<b>Total Depreciation and Amortisation</b>	<b>1 811 825</b>	<b>1 727 943</b>
<b>22 FINANCE COSTS</b>		
Borrowings	286 061	353 728
Bank overdrafts	202 188	151 349
<b>Total Finance Costs</b>	<b>488 249</b>	<b>505 076</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>23 GENERAL EXPENSES</b>			
Included in general expenses are the following:-			
Advertising		31 452	69 238
Audit fees		1 607 253	1 094 920
Bank charges		96 595	95 522
Bursaries		119 086	74 821
Cleaning		36 794	41 689
Electrical projects		6 713 418	7 631 322
Entertainment		24 363	9 015
Insurance		159 588	208 530
Legal expenses		286 410	909 950
Levies paid		76 258	277 649
Membership fees		64 440	288 396
Postage		5 228	6 585
Printing and stationery		154 411	234 042
Professional fees		1 074 888	429 799
Rental of office equipment		147 642	169 136
Security costs		291 000	541 955
Subscription & publication		-	5 346
Telephone cost		299 036	600 508
Training		82 885	12 508
Travel and subsistence		356 829	269 109
Uniforms & overalls		112 860	348 772
Other		1 282 327	604 659
		<b>13 022 760</b>	<b>13 923 471</b>
<b>24 LOSS ON SALE OF ASSETS</b>			
Property, plant and equipment		-	(545 424)
<b>Total Loss on Sale of Assets</b>		<b>-</b>	<b>(545 424)</b>
<b>25 IMPAIRMENT LOSS</b>			
Property, plant and equipment		-	561 598
<b>Total Impairment loss / (Reversal of Impairment Loss)</b>		<b>-</b>	<b>561 598</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Note	2011 R	2010 R
<b>26 CASH GENERATED BY OPERATIONS</b>		
Surplus/(deficit) for the year	1 513 885	16 641
Adjustment for:-		
Depreciation and amortisation	1 811 825	1 727 943
(Gain) / loss on sale of assets	-	545 424
Contribution to provisions - non-current		
Contribution to provisions - current	2 238 934	(1 668 399)
Finance costs		
Fair value adjustments		
Impairment loss / (reversal of impairment loss)	-	561 598
Other non-cash item		
<b>Operating surplus before working capital changes:</b>	<b>5 564 645</b>	<b>1 183 207</b>
(Increase)/decrease in inventories	431 732	344 744
(Increase)/decrease in trade receivables	(46 006)	352 406
(Increase)/decrease in other receivables	68	(10 784)
(Increase)/decrease in VAT receivable	(1 837 227)	(1 047 227)
Increase/(decrease) in conditional grants and receipts	9 088 578	(1 447 448)
Increase/(decrease) in trade payables	(7 936 537)	(3 379 297)
Increase/(decrease) in consumer deposits		(116 079)
Increase/(decrease) in VAT payable		
Other asset		
Other liability		
<b>Cash generated by/(utilised in) operations</b>	<b>5 265 254</b>	<b>(4 120 479)</b>
<b>27 CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents included in the cash flow statement comprise the following:		
Bank balances and cash	440 688	118 246
<b>Net cash and cash equivalents (net of bank overdrafts)</b>	<b>440 688</b>	<b>118 246</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>28 CORRECTION OF ERROR</b>			
During the year ended 30 June 2010 and previous years, electrical and water			
<b>28.1</b> projects were incorrectly recognised as PPE instead of expenditure: -			
The comparative amount has been restated as follows:			
<b>Opening balance</b>			
PPE			(17 146 261)
Accumulated Depreciation			5 898 129
Net effect on accumulated surplus		-	<u><u>(11 248 132)</u></u>
Current year			
Expenditure			7 631 322
Depreciation			(656 066.30)
Net effect on surplus			<u><u>6 975 255.51</u></u>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
During the year ended 30 June 2010 and previous years, municipality recognised water related transaction arising from agency agreement with Vhembe District			
<b>28.2 Municipality: -</b>			
<i>Reversal of water debtors as at 30 June 2009</i>			
Opening balance			
Consumer debtors			(2 909 263)
VAT receivable			357 278
Net effect on accumulated surplus			<u><u>(2 551 985)</u></u>
<i>Reversal of debts written off</i>			
Provision for bad debt			211 426
VAT receivable			29 600
Consumer debtors			<u><u>241 026</u></u>
<i>Reversal of provision for doubtful debts relating to water debtors</i>			
Provision for bad debts			2 726 483
Bad debt			(299 039.71)
Accumulated surplus			<u><u>2 427 443</u></u>
<i>Recognition of liability arising from cash collected on behalf of Vhembe District Municipality</i>			
Consumer debtors			619 879.15
Vhembe District Municipality			619 879.15
Reversal of water revenue raised in 2010			
Revenue			(6 197 539)
Vat receivable			(1 239 289)
Consumer debtors			2 342 282
Vhembe District Municipality			4 908 730
Consumer deposit			185 816
Reversal of leave provision related to DWARF employees			
Provision for bonus			(263 901)
Salaries			83 824
Leave provision			(531 675.57)
Accumulated surplus			711 752.90
Recognition of receivable in respect of payments made on behalf of Vhembe District Municipality			
Expenses: meter readers			(53 968)
Bulk purchases			(167 998)
Creditors			(30 852)
Accumulated surplus			6 030
VAT receivable			24 364
Vhembe District Municipality			221 507
Reversal of expenditure related to VDM water grant			
Revenue			23 179 778
Accumulated surplus			441 202
Expenses			21 951 412
VAT receivable			3 055 980
<b>Correction as a result of review of useful live of items of PPE and fair value</b>			
<b>28.3 of assets previously recognised at R1</b>			
Property, plant and equipment - cost			885 923
Accumulated depreciation -			3 061 661
Depreciation - 2010			(392 151)
Net effect on accumulated surplus			<u><u>3 555 434</u></u>



**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R				
UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE							
29 DISALLOWED							
29.1 Unauthorised expenditure							
Reconciliation of unauthorised expenditure							
Opening balance		472 563	10 318 635				
Unauthorised expenditure current year			472 563				
Approved by Council or condoned			10 318 635				
Transfer to receivables for recovery							
Unauthorised expenditure awaiting authorisation		472 563	472 563				
<table> <tr> <td>Incident</td> <td>Disciplinary steps/criminal proceedings</td> </tr> <tr> <td>Unbudgeted expenditure</td> <td>Disciplinary hearing held on xxx</td> </tr> </table>				Incident	Disciplinary steps/criminal proceedings	Unbudgeted expenditure	Disciplinary hearing held on xxx
Incident	Disciplinary steps/criminal proceedings						
Unbudgeted expenditure	Disciplinary hearing held on xxx						
29.2 Fruitless and wasteful expenditure							
Reconciliation of fruitless and wasteful expenditure							
Opening balance -		140 385	39 020				
Fruitless and wasteful expenditure current year		202 188	140 385				
Condoned or written off by Council			39 020				
To be recovered – contingent asset							
Fruitless and wasteful expenditure awaiting condonement		342 573	140 385				
<table> <tr> <td>Incident</td> <td>Disciplinary steps/criminal proceedings</td> </tr> <tr> <td>VAT penalty</td> <td>Disciplinary hearing on xxx</td> </tr> </table>				Incident	Disciplinary steps/criminal proceedings	VAT penalty	Disciplinary hearing on xxx
Incident	Disciplinary steps/criminal proceedings						
VAT penalty	Disciplinary hearing on xxx						

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE</b>			
<b>30 MANAGEMENT ACT</b>			
<b>30.1 Contributions to organised local government</b>			
Opening balance		5 028	-
Council subscriptions		59 412	7 826
Amount paid - current		(64 440)	(2 798)
Amount paid - previous years			
<b>Balance unpaid (included in payables)</b>		<b>-</b>	<b>5 028</b>
<b>30.2 Audit fees</b>			
Opening balance		969 427	507 286
Current year audit fee		1 607 253	1 094 920
Amount paid - current year		(2 061 787)	(632 779)
Amount paid - previous years			
<b>Balance unpaid (included in payables)</b>		<b>514 893</b>	<b>969 427</b>
The balance unpaid represents the audit fee for an interim audit conducted during			
<b>30.3 VAT</b>			
VAT input receivables and VAT output payables are shown in note 18. All VAT returns have been submitted by the due date throughout the year.			
<b>30.4 PAYE and UIF</b>			
Opening balance		1 324 947	856 999
Current year payroll deductions		2 928 004	3 185 536
Amount paid - current year		(3 307 234)	(2 717 588)
Amount paid - previous years			
<b>Balance unpaid (included in payables)</b>		<b>945 717</b>	<b>1 324 947</b>
The balance represents PAYE and UIF deducted but not paid over to third parties			
<b>30.5 Pension and Medical Aid Deductions</b>			
Opening balance		4 193 390	1 589 409
Current year payroll deductions and Council Contributions		3 669 671	7 181 342
Amount paid - current year		(7 187 311)	(4 577 361)
Amount paid - previous years			
<b>Balance unpaid (included in payables)</b>		<b>675 750</b>	<b>4 193 390</b>
The balance represents pension and medical aid contributions deducted from employees in the June 2011 payroll as well as Council's contributions to pension and medical aid funds. These amounts will be paid during 2012.			

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>30.6 Councillor's arrear consumer accounts</b>			
The following Councillors had arrear accounts outstanding for more than 90 days as at: -	<b>Total</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>as at 30 June 2011</b>			
Councillor Nekhunguni PD	241.78		241.78
Councillor Raluswina T	322.81	113.34	209.47
Councillor Netshisaulu AG	36.63	36.63	
Councillor Netshisaulu LM	45.77	45.77	
Councillor Nekhunguni AE	51.51	51.51	
Councillor Madune S	177.24	177.24	
Councillor Lukhalimana K	228	228	
Councillor Maisha RV	55	55	
<b>Total Councillor Arrear Consumer Accounts</b>	<b>1 158</b>	<b>707</b>	<b>451</b>
<b>as at 30 June 2010</b>			
Councillor Khakhu MD	1 581	804	777
Councillor Nekhunguni PD	36	36	
Councillor Mulaudzi NA	57	57	
Councillor Netshidongololwe NI	489	489	
Councillor Mudzielwana H	128		128
<b>Total Councillor Arrear Consumer Accounts</b>	<b>2 291</b>	<b>1 386</b>	<b>905</b>

**31 CAPITAL COMMITMENTS**

**31.1 Commitments in respect of capital expenditure**

**- Approved and contracted for**

Infrastructure  
Community  
Heritage  
Other

**12 988 416**      **18 958 761**

12 988 416	18 958 761
------------	------------

**- Approved but not yet contracted for**

Infrastructure  
Community  
Heritage  
Other

-      -

--	--

**Total**

**12 988 416**      **18 958 761**

12 988 416	18 958 761
------------	------------

This expenditure will be financed from:

- External Loans  
- Government Grants  
- Own resources  
- District Council Grants

12 988 416      18 958 761

**12 988 416**      **18 958 761**

12 988 416	18 958 761
------------	------------

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>32 RETIREMENT BENEFIT INFORMATION</b>			
<b>32.1 Defined contribution plan</b>			
The following are defined contribution plans: ..... These contributions have been expensed.			
<b>33 CONTINGENT LIABILITY</b>			
<b>33.1 Claim for damages</b>			
There is a contractual dispute between the Municipality and the contractor. Council is contesting the claim based on legal advice. A court date has not yet been set.			
		100 000	100 000
<b>34 RELATED PARTIES</b>			
The following parties are classified as related to the municipality:			
Members of key management			
Close family member of key management			
Other related party relationships			
Compensation to councillors and other key management (refer to note 19 & 20)			
<b>Related party transactions</b>			
No related party transaction took place other than compensation paid to councillors and key management.			
<b>35 EVENTS AFTER THE REPORTING DATE</b>			
The Accounting Officer is not aware of any significant material matter or circumstance that occurrence after year-end that warrant adjustment of or disclosure in the financial statements.			
<b>36 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS</b>			
The following areas involve a significant degree of estimation uncertainty:			
Useful lives and residual values of property, plant, and equipment			
Recoverable amounts of property, plant and equipment			
Provision for doubtful debts			
Impairment of assets			
<b>37 RISK MANAGEMENT</b>			
<b>37.1 Maximum credit risk exposure</b>			
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors.			
The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.			
Financial assets exposed to credit risk at year end were as follows:			
FNB Bank		440 688	118 246
Trade and other receivables		559 030	513 024
		<b>999 718</b>	<b>631 270</b>

**MUTALE LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

	Note	2011 R	2010 R
<b>37.2 Liquidity risk</b>			
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.			
Gross finance lease obligations		430 790	622 632
Borrowings		1 674 757	1 929 347
Trade and other payables		15 922 741	23 859 278
Consumer deposits		211 783	211 783
		<b>18 240 072</b>	<b>26 623 040</b>
<b>37.3 Interest rate risk</b>			
The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.			
At year end, financial instruments exposed to interest rate risk were as follows:			
- Long term borrowings		<u>1 674 757</u>	1 929 347

**38 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E

**MUTALE LOCAL MUNICIPALITY**

**APPENDIX A**

**SCHEDULE OF EXTERNAL LOANS**

as at 30 June 2011

			Balance at 30 June 2010	Received during the period	Redeemed / written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
<b>EXTERNAL LOANS</b>								
			R	R	R	R	R	R
<b>LONG-TERM LOANS</b>								
FNB Loan	124/FNB/10	2016/12/09	1 890 569			1 674 646		
Wesbank Instalment Sale	KFB245978	31/03/2011	38 777			111		
<b>Total long-term loans</b>			1 929 346			1 674 757		
<b>FINANCE LEASE</b>								
Zerox		31/01/2013	622 632			430 790	284 469	
<b>TOTAL EXTERNAL LOANS</b>			2 551 978			2 105 547	284 469	

**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>Buildings</b>	10 776 236	429 397.56	-	-	11 205 633	(1 471 857)	(345 842)	-	-	(1 817 699)	-	-	9 387 934
<b>Infrastructure</b>													
Roads	27 013 104	141 694	-	1 178 852	28 333 650	-	-317 975.24	-	-	(317 975)	-	-	28 015 675
Electricity Mains	2 545 242	7 480	-	-	2 552 722	(103 481)	(117 299)	-	-	(220 780)	-	-	2 331 942
	29 558 346	149 174	-	1 178 852	30 886 372	(103 481)	(435 274)	-	-	(538 755)	-	-	30 347 617
<b>Community Assets</b>													
Recreation Grounds	1 769 540	-	-	-	1 769 540	(282 113)	(21 985)	-	-	(304 097)	-	-	1 465 442
Cemeteries	1 390 989	-	-	-	1 390 989	(159 785)	(99 356)	-	-	(259 141)	-	-	1 131 848
	3 160 529	-	-	-	3 160 529	(441 898)	(121 341)	-	-	(563 239)	-	-	2 597 290
<b>Total carried forward</b>	43 495 111	578 571	-	1 178 852	45 252 534	(2 017 236)	(902 457)	-	-	(2 919 693)	-	-	42 332 841

**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
<b>Total brought forward</b>	R 43 495 111	R 578 571	R -	R 1 178 852	R 45 252 534	R (2 017 236)	R (902 457)	R -	R -	R (2 919 693)	R -	R -	R 42 332 841
<b>Other Assets</b>													
Office Equipment	1 651 570	-	-	-	1 651 570	(634 181)	(97 151)	-	-	(731 333)	-	-	920 238
Furniture & Fittings	911 863	5 059	-	-	916 923	(386 437)	(53 882)	-	-	(440 319)	-	-	476 604
Bins and Containers	29 562	-	-	-	29 562	(14 780)	(3 695)	-	-	(18 476)	-	-	11 086
Motor vehicles	2 463 055	199 762	-	-	2 662 817	(832 637)	(146 849)	-	-	(979 486)	-	-	1 683 331
Trucks	1 745 596	-	-	-	1 745 596	(792 152)	(102 682)	-	-	(894 834)	-	-	850 762
Plant and equipment	1 027 157	52 637	-	-	1 079 794	(304 533)	(51 358)	-	-	(355 891)	-	-	723 903
Computer Equipment	1 358 805	295 249	-	-	1 654 054	(959 225)	(273 632)	-	-	(1 232 857)	-	-	421 197
	9 187 608	552 708	-	-	9 740 316	(3 923 945)	(729 250)	-	-	(4 653 195)	-	-	5 087 120
<b>Finance Lease Assets</b>													
Office Equipment	898 321	-	-	-	898 321	(434 188)	(179 664)	-	-	(613 852)	-	-	284 469
	898 321	-	-	-	898 321	(434 188)	(179 664)	-	-	(613 852)	-	-	284 469
<b>Total</b>	<b>53 581 040</b>	<b>1 131 279</b>	<b>-</b>	<b>1 178 852</b>	<b>55 891 171</b>	<b>(6 375 369)</b>	<b>(1 811 371)</b>	<b>-</b>	<b>-</b>	<b>(8 186 741)</b>	<b>-</b>	<b>-</b>	<b>47 704 431</b>



**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>Buildings</b>	9 754 382	1 021 854			10 776 236	(1 210 178)	(261 679)	-	-	(1 471 857)	-	-	9 304 379
<b>Infrastructure</b>													
Roads	26 131 419	1 863 189	(4 384 862)	3 403 358	27 013 104	(1 960 095)		1 960 095	-	-	-	-	27 013 104
Electricity Mains	16 558 309	130 606	(1)	7 631 322	24 320 236	(4 508 112)	(103 480)	-	-	(4 611 592)	(17 266 883)	-	2 441 761
Water Mains & Purification	3 002 589		(1)	-	3 002 588	(1 413 717)	-	-	-	(1 413 717)	(1 588 871)	-	-
	45 692 317	1 993 795	(4 384 864)	11 034 680	54 335 928	(7 881 924)	(103 480)	1 960 095	-	(6 025 309)	(18 855 754)	-	29 454 865
<b>Community Assets</b>													
Recreation Grounds	1 769 540	-	-	-	1 769 540	(260 128)	(21 985)	-	-	(282 113)	-	-	1 487 427
Cemeteries	289 549	1 101 440	-	-	1 390 989	(80 097)	(79 688)	-	-	(159 785)	-	-	1 231 204
	2 059 089	1 101 440	-	-	3 160 529	(340 225)	(101 672)	-	-	(441 898)	-	-	2 718 631
<b>Total carried forward</b>	57 505 788	4 117 089	(4 384 864)	11 034 680	68 272 693	(9 432 327)	(466 832)	1 960 095	-	(7 939 064)	(18 855 754)	-	41 477 875

**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>Total brought forward</b>	57 505 788	4 117 089	(4 384 864)	11 034 680	68 272 693	(9 432 327)	(466 832)	1 960 095	-	(7 939 064)	(18 855 754)	-	41 477 875
<b>Other Assets</b>													
Office Equipment	1 712 885	6 000	(67 315)	-	1 651 570	(603 956)	(97 151)	66 926	-	(634 181)	-	-	1 017 389
Furniture & Fittings	1 021 747	-	(109 884)	-	911 863	(442 138)	(53 639)	109 341	-	(386 437)	-	-	525 426
Bins and Containers	29 604	-	(42)	-	29 562	(11 126)	(3 695)	40	-	(14 780)	-	-	14 782
Emergency Equipment	2 051	-	-	-	2 051	(1 808)	(238)	-	-	(2 046)	(5)	-	-
Motor vehicles	2 810 788	-	(347 733)	-	2 463 055	(876 468)	(144 885)	188 717	-	(832 637)	-	-	1 630 418
Trucks	2 085 790	-	(340 194)	-	1 745 596	(1 029 065)	(102 682)	340 193	-	(791 555)	-	-	954 041
Plant and Equipment	2 634 829	25 483	(1 633 155)	-	1 027 157	(1 192 236)	(51 358)	939 060	-	(304 533)	-	-	722 623
Computer Equipment	1 593 150	57 411	(291 756)	-	1 358 805	(1 010 727)	(196 909)	248 411	-	(959 225)	-	-	399 580
	11 890 844	88 894	(2 790 079)	-	9 189 659	(5 167 525)	(650 558)	1 892 688	-	(3 925 395)	(5)	-	5 264 260
<b>Finance Lease Assets</b>													
Office Equipment	898 321	-	-	-	898 321	(254 524)	(179 664)	-	-	(434 188)	-	-	464 133
	898 321	-	-	-	898 321	(254 524)	(179 664)	-	-	(434 188)	-	-	464 133
<b>Total</b>	<b>70 294 953</b>	<b>4 205 983</b>	<b>(7 174 943)</b>	<b>11 034 680</b>	<b>78 360 673</b>	<b>(14 854 376)</b>	<b>(1 297 054)</b>	<b>3 852 783</b>	<b>-</b>	<b>(12 298 647)</b>	<b>(18 855 759)</b>	<b>-</b>	<b>47 206 268</b>

**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX C**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**  
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	
Executive & Council										
Finance & Admin										
Planning & Development										
Health										
Community & Social Services										
Public Safety										
Sport & Recreation										
Environmental Protection										
Waste Management										
Road Transport										
Water										
Electricity										
Other										
<b>Total</b>	-	-	-	-	-	-	-	-	-	-

**MUTALE LOCAL MUNICIPALITY**  
**APPENDIX D**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2011

2010			2011		
Actual Income	Actual Expenditure	Surplus / (Deficit)	Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R	R	R	R
-	-	-	-	-	-
Less: Inter-Department Charges					
-	-	-	-	-	-
Total					
-	-	-	-	-	-

## STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

as at 30 June 2011

[illegible]